

Audit Report



DISCLOSURE OF DIFFERENCES IN DEPOSITS, INTERAGENCY
TRANSFERS, AND CHECKS ISSUED IN THE FY 1999
DOD AGENCY-WIDE FINANCIAL STATEMENTS

Report No. D-2000-123

May 18, 2000

Office of the Inspector General
Department of Defense

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Acronyms

DFAS
FBWT

Defense Finance and Accounting Service
Fund Balance With Treasury



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

May 18, 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE

SUBJECT: Audit Report on Disclosure of Differences in Deposits, Interagency
Transfers, and Checks Issued in the FY 1999 DoD Agency-Wide Financial
Statements (Report No. D-2000-123)

We are providing this report for review and comment. This is the fourth in a series of reports on the Fund Balance With Treasury account. We conducted the audit in support of our annual audits of the Fund Balance With Treasury account and the DoD Agency-Wide financial statements, as required by the Chief Financial Officers Act of 1990, the Federal Financial Management Act of 1994, and the Federal Financial Management Improvement Act of 1996.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. No comments were received on a draft of this report. Therefore, we request that the Under Secretary of Defense (Comptroller) provide comments on Recommendations 1. and 2. and the Director, Defense Finance and Accounting Service, provide comments on Recommendation 2. by June 19, 2000.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Brian M. Flynn at (703) 604-9489 (DSN 664-9489) (bflynn@dodig.osd.mil) or Mr. Robert E. Benefiel, Jr., at (703) 604-9515 (DSN 664-9515) (rbenefiel@dodig.osd.mil). See Appendix F for the report distribution. The audit team members are listed inside the back cover.

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Report No. D-2000-123

(Project No. D1999FD-0065)
(formerly 9FD-2025)

May 18, 2000

Disclosure of Differences in Deposits, Interagency Transfers, and Checks Issued in the FY 1999 DoD Agency-Wide Financial Statements

Executive Summary

Introduction. This is the fourth in a series of audits on the Fund Balance With Treasury account (an asset account) performed in response to Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, and Public Law 104-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996. This report discusses the disclosure of differences in deposits, interagency transfers, and checks issued in the DoD Agency-Wide financial statements. The FY 1999 DoD Agency-Wide financial statements reported total assets of \$599.0 billion, including \$175.7 billion in the Fund Balance With Treasury account.

Objectives. The overall audit objective was to assess controls over the collections and disbursements reported to the Defense Finance and Accounting Service Centers and the U.S. Treasury. This report focuses on the objective as it applied to the disclosure of differences in deposits, interagency transfers, and checks issued in the FY 1999 DoD Agency-Wide financial statements. We also reviewed the adequacy of the management control program as it applied to the audit objective.

Results. The Defense Finance and Accounting Service did not disclose \$7.1 billion (absolute value) of differences in deposits, interagency transfers, and checks issued in the footnotes to the FY 1999 DoD Agency-Wide financial statements. The differences included the following:

- deposit differences of \$1.5 billion,
- interagency transfer differences of \$1.2 billion, and
- checks issued differences of \$4.4 billion.

The net values of the differences were \$444.7 million, \$336.4 million, and \$2.9 billion, respectively. In addition, the Defense Finance and Accounting Service did not disclose the age of the differences or the effect that the differences would have on the Fund Balance With Treasury account. Those disclosures are necessary for users of the

financial statements to assess the reliability of the DoD Fund Balance With Treasury account value reported on the DoD Agency-Wide financial statements. See Appendix A for details on the management control program.

Recommendations. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, to require the Defense Finance and Accounting Service to disclose the dollar amount and the age of deposit, interagency transfer, and checks issued differences and the effect of the differences on the Fund Balance With Treasury account in Note 2, "Fund Balances With Treasury," of the DoD Agency-Wide financial statements. We recommend that the Office of the Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service, review the DoD Agency-Wide financial statements' footnote disclosure of differences as part of their self-evaluations.

Management Comments. The draft report was issued on March 15, 2000, and we received no management comments. We request that the Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service, respond to this final report by June 19, 2000.

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This is the fourth in a series of audits on the Fund Balance With Treasury (FBWT) account (an asset account)¹ performed in response to Public Law 101-576, the "Chief Financial Officers Act of 1990," November 15, 1990, as amended by Public Law 103-356, the "Federal Financial Management Act of 1994," October 13, 1994, and Public Law 104-208, the "Federal Financial Management Improvement Act of 1996," September 30, 1996. This report discusses the disclosure of differences in deposits, interagency transfers, and checks issued in the DoD Agency-Wide financial statements for FY 1999.

The first three audits in this series assessed the reconciliation of differences in deposits, interagency transfers, and checks issued against the FBWT account. We plan to issue another report that will discuss disbursing stations with significant differences in deposits, interagency transfers, and checks issued. The FY 1999 DoD Agency-Wide financial statements reported total assets of \$599.0 billion, including \$175.7 billion in the FBWT account.

Background

In the normal course of business, DoD disbursing stations make disbursements and collections of funds on behalf of the U.S. Treasury. As of September 30, 1999, DoD had 907 disbursing stations. The disbursing stations are authorized to make deposits, to initiate interagency transfers, and to prepare U.S. Treasury checks.

Statement of Accountability. The 907 DoD disbursing stations are accountable to the U.S. Treasury for their disbursements and collections. Each disbursing station is required to prepare a monthly SF 1219, the "Statement of Accountability," which reports information to the U.S. Treasury on deposits, interagency transfers, and checks issued. The Statement of Accountability also reports net disbursements, which is the sum of the deposits, interagency transfers, and checks issued that are reported on the Statement of Accountability.

Each DoD disbursing station submits its Statement of Accountability to a finance center. Army disbursing stations report to the Defense Finance and Accounting Service (DFAS) Indianapolis Center, Indianapolis, Indiana; Navy disbursing stations report to the DFAS Cleveland Center, Cleveland, Ohio; and Air Force disbursing stations report to the DFAS Denver Center, Denver, Colorado. The U.S. Army Corps of Engineers' (Corps) disbursing stations report to the Corps' Finance Center, Millington, Tennessee.

Each of the four Centers combines the Statements of Accountability received from its disbursing stations and electronically submits a combined Statement of Accountability to the U.S. Treasury using the Government On-line Accounting Link System, a Federal financial telecommunications network.

¹A Federal entity's Fund Balance With Treasury account is the aggregate amount of funds in the entity's accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities.

Reconciliations. The U.S. Treasury reconciles deposits, interagency transfers, and checks issued as reported on the Statements of Accountability with U.S. Treasury control totals and reports the differences to the finance centers and disbursing stations for their reconciliation. The U.S. Treasury obtains control totals from the CASHLINK² system for deposits, the On-line Payment and Collection System³ for interagency transfers, and the Defense Check Reconciliation Module⁴ for checks issued.

The U.S. Treasury reports differences in deposits, interagency transfers, and checks issued separately on three reports. The U.S. Treasury reports the following:

- differences in deposits on the Department of the Treasury Financial Management Service Form 6652, "Statement of Differences, Deposit Transactions" (Statement of Differences);
- differences in interagency transfers on Department of the Treasury Financial Management Service Form 6652, "Statement of Differences, Disbursing Office Transactions"; and
- differences in checks issued on the "Comparison of Checks Issued--Detail Reported on Statements of Accountability and Block Control Level Totals" report (the Comparison Report).

Statement of Transactions. Each DoD disbursing station is also required to prepare a monthly SF 1220, "Statement of Transactions," which reports the disbursements shown on the Statement of Accountability by appropriation. The Statements of Transactions are combined at the finance centers and submitted to the U.S. Treasury. The U.S. Treasury requires that the net disbursements reported on the Statement of Transactions agree with the net disbursements reported on the Statement of Accountability. Conversely, transaction errors that affect the amount of net disbursements reported on the Statement of Accountability always affect the amount of net disbursements reported on the Statement of Transactions.

The U.S. Treasury records the disbursements from the Statements of Transactions in the FBWT account maintained for each appropriation in the U.S. Treasury's Standard Treasury Accounting and Reporting System. Each month, the U.S. Treasury reports the outstanding balance in the FBWT account to each Government agency on Department of the Treasury Financial Management Service Form 6653, the "Undisbursed Appropriation Account

²CASHLINK is a worldwide reporting system showing disbursement and collection transactions reported by Federal Reserve District Banks and commercial bank depositories. The transactions include electronic funds transfer disbursements and cash, check, and credit card collections.

³The On-line Payment and Collection System is an automated application available to Federal organizations through the Government On-line Accounting Link System. The On-line Payment and Collection System is used for interagency financial transactions.

⁴All DoD disbursing stations must report their checks issued weekly to the Defense Check Reconciliation Module at DFAS Denver Center. The DFAS Denver Center, using the Defense Check Reconciliation Module, electronically transmits all data on checks issued (the Weekly Transmission Reports) received from DoD disbursing stations to the U.S. Treasury.

Ledger.” Transaction errors that affect the amount of net disbursements reported on the Statement of Transactions always affect the FBWT account. See Appendix C for a flowchart describing the processes for identifying differences and recording transactions in the FBWT account.

The U.S. Treasury sends the Undisbursed Appropriation Account Ledger to each agency on microfiche and through the Government On-line Accounting Link System. DFAS uses the Undisbursed Appropriation Account Ledger to adjust budgetary data to be reported on the monthly SF 133, “Report on Budget Execution,” and the Department of the Treasury Financial Management Service Form 2108, “Year End Closing Statement.” The budgetary reports are the primary financial reports supporting the Combined Statement of Budgetary Resources in the DoD Agency-Wide financial statements.

DoD Implementation Strategy and Reconciliation of the DoD FBWT Account. Reconciling the FBWT account is one of the DoD implementation strategies for obtaining favorable audit opinions on DoD financial statements. See Appendix D for a discussion of the DoD implementation strategy and reconciliation of the DoD FBWT account.

Objectives

The overall audit objective was to assess controls over the collections and disbursements reported to the DFAS Centers and the U.S. Treasury. This report focuses on the objective as it applied to the disclosure of differences in deposits, interagency transfers, and checks issued in the FY 1999 DoD Agency-Wide financial statements. We also reviewed the adequacy of the management control program as it applied to the audit objective. Appendix A discusses the audit scope and methodology and the review of the management control program, and Appendix B lists prior audits related to the objectives.

Disclosure of Differences in Deposits, Interagency Transfers, and Checks Issued in the FY 1999 DoD Agency-Wide Financial Statements

DFAS did not disclose \$7.1 billion (absolute value) of differences in deposits, interagency transfers, and checks issued in the footnotes to the FY 1999 DoD Agency-Wide financial statements. DFAS did not disclose the following:

- deposit differences of \$1.5 billion,
- interagency transfer differences of \$1.2 billion, and
- checks issued differences of \$4.4 billion.

The net values of the differences were \$444.7 million, \$336.4 million, and \$2.9 billion, respectively. In addition, DFAS did not disclose the age of the differences or the effect that the differences had on the FBWT account in the footnotes to the FY 1999 DoD Agency-Wide financial statements. DFAS did not disclose the differences because DoD Regulation 7000.14-R, "DoD Financial Management Regulation," October 6, 1999, did not require DFAS to make the disclosures. Disclosure of the differences and their effect on the FBWT account is necessary for users of the financial statements to assess the reliability of the DoD FBWT account value reported on the DoD Agency-Wide financial statements.

Guidance

DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, "Form and Content of the Department of Defense Audited Financial Statements," October 6, 1999, establishes form and content requirements for the DoD financial statements, including the footnotes to the DoD financial statements. Chapter 10, "Notes to the Financial Statements," section 1003, Note 2, "Fund Balances With Treasury," requires disclosure of FBWT issues. For example, section 1003 requires that Note 2 disclose the difference between the FBWT amount reported on the DoD financial statements and the FBWT amount reported on the Department of the Treasury Financial Management Service Form 2108, "Year End Closing Statement."

The DoD year-end closing statements and other reports of budget execution are based on the U.S. Treasury's Undisbursed Appropriation Account Ledger for DoD. Differences in deposits, interagency transfers, and checks issued affect

the accuracy of the Undisbursed Appropriation Account Ledger. See Appendix E for a discussion of how differences affect the accuracy of the DoD Fund Balance With Treasury account.

Disclosure of Differences in the FY 1999 DoD Agency-Wide Financial Statements

DFAS did not disclose, in the footnotes to the FY 1999 DoD Agency-Wide financial statements, the dollar amount and the age of the differences in deposits, interagency transfers, and checks issued, or the effect of the differences on the FBWT account balance. DFAS did not make the disclosures although the U.S. Treasury provided the finance centers with the necessary information monthly on the Statements of Differences and the Comparison Report. We obtained an electronic file of the U.S. Treasury's Statements of Differences, and a copy of the U.S. Treasury's Comparison Report as of September 30, 1999, to determine the dollar amount of the undisclosed differences.

Disclosure of the Dollar Amount of the Differences. DFAS did not disclose \$7.1 billion (absolute value) of differences in deposits, interagency transfers, and checks issued in the footnotes to the FY 1999 DoD Agency-Wide financial statements. The DFAS did not disclose the following:

- deposit differences of \$1.5 billion,
- interagency transfer differences of \$1.2 billion, and
- checks issued differences of \$4.4 billion.

The net values of the differences were \$444.7 million, \$336.4 million, and \$2.9 billion, respectively.

Disclosure of the Age of the Differences. DFAS also did not disclose the age of the differences in deposits, interagency transfers, and checks issued in the footnotes to the FY 1999 DoD Agency-Wide financial statements. We consider differences less than a month old as timing differences because all differences should be resolved in the month after they occur. Therefore, we aged the differences at the one-month point to determine the significance of differences more than one month old. Specifically, we computed the dollar amount of differences (absolute value) in deposits, interagency transfers, and checks issued, as of September 30, 1999, that were more than one month old and that were less than one month old.

The U.S. Treasury data showed that DFAS did not disclose that differences in deposits (\$0.7 billion), interagency transfers (\$0.9 billion), and checks issued (\$1.5 billion) that were more than one month old accounted for \$3.1 billion (43.2 percent) of the DoD September 30, 1999, difference (\$7.1 billion), as shown in Table 1.

Table 1. Differences (Absolute Value) in Deposits, Interagency Transfers, and Checks Issued More Than One Month Old and Less Than One Month Old as of September 30, 1999
(millions)

	<u>Deposits</u>	<u>Interagency Transfers</u>	<u>Checks Issued</u>	<u>Total</u>
More-Than- One-Month Old	\$ 711.8	\$ 873.2	\$1,495.4	\$3,080.4
Less-Than- One-Month Old	<u>816.5</u>	<u>356.1</u>	<u>2,881.9</u>	<u>4,054.5</u>
Total	\$1,528.3	\$1,229.3	\$4,377.3	\$7,134.9

Disclosure of Differences in the FY 1999 Financial Statements for the Army, Navy, and Air Force General Funds. In addition, DFAS did not consistently disclose the dollar amount and the age of the differences in deposits, interagency transfers, and checks issued in the footnotes to the FY 1999 financial statements. DFAS disclosed the amount and the age of the differences for the Navy general funds but did not disclose the amount and the age of the differences for the Army and Air Force general funds.

Disclosure of the Differences' Effect on the DoD Fund Balance With Treasury Account. DFAS did not disclose the dollar effect of unreconciled differences in deposits, interagency transfers, and checks issued on the value of the DoD FBWT account. Therefore, we used the U.S. Treasury data to determine the effect of the differences on the DoD FBWT account.

Effect of Deposit and Interagency Transfer Differences on the Fund Balance With Treasury Account. According to the U.S. Treasury data, deposit differences resulted in a \$444.7 million net understatement of the September 30, 1999, DoD FBWT account. Interagency transfer differences⁵ resulted in a \$336.4 million net overstatement of the DoD FBWT account, as shown in Table 2.

⁵We were unable to determine the amount of the differences applicable to non-DoD appropriations because data were not available at DFAS.

Table 2. Effect of Deposit Differences and Interagency Transfer Differences on the September 30, 1999, DoD Fund Balance With Treasury Account (millions)

	Net Disbursements	
	<u>Deposits</u>	<u>Interagency Transfers</u>
Total reported by DoD on the Statement of Accountability	\$165,965.8	\$5,077.8
U.S. Treasury control total	165,521.1	5,414.2
Overstatement (understatement) of net disbursements reported by DoD	444.7	(336.4)
Overstatement (understatement) of DoD Fund Balance With Treasury account	\$ (444.7)	\$ 336.4

Effect of Deposit and Interagency Transfer Differences on Other Accounts. Deposit differences having an absolute value of \$1.5 billion and interagency transfer differences having an absolute value of \$1.2 billion affected the accuracy of other accounts (such as accounts receivable and accounts payable) reported on the DoD Agency-Wide financial statements. However, the effect of deposit and interagency transfer differences on each individual account could not be determined.

Effect of Differences in Checks Issued on the Fund Balance With Treasury Account. The September 30, 1999, Comparison Report for DoD showed a \$2.9 billion net difference between the amount of checks issued that were reported in U.S. Treasury control totals (\$127.7 billion) and the amount of checks issued that were reported on the Statements of Accountability (\$130.6 billion).

However, we were unable to determine the effect of differences in checks issued on the DoD FBWT account because differences reported on the Comparison Report reflect the combination of errors in U.S. Treasury control totals used for checks issued and errors in the amount of checks issued that are reported on the Statement of Accountability. Use of the checks issued differences data would have required a complete reconciliation of the differences in checks issued for each of the 471 DoD disbursing stations with unreconciled differences listed on the Comparison Report. Of the 471 disbursing stations, 141 disbursing stations (29.9 percent) had unreconciled differences going back as far as 1991. For example, the unreconciled differences for 1991 totaled \$258.3 million.

Requirements for Disclosing Differences in Deposits, Interagency Transfers, and Checks Issued

Although DoD Regulation 7000.14-R requires disclosure of FBWT issues, it does not require disclosure of differences between the Statement of Accountability and the U.S. Treasury control totals for deposits, interagency transfers, and checks issued. Specifically, DoD Regulation 7000.14-R does not require that DFAS disclose, in the footnotes to the DoD Agency-Wide financial statements, the dollar amount and the age of the differences in deposits, interagency transfers, and checks issued or the effect of the differences on the FBWT account. Disclosure of the differences would be beneficial because they affect the accuracy of the DoD FBWT account. The appropriate place for such disclosure would be in Note 2, "Fund Balances With Treasury," to the DoD Agency-Wide financial statements.

Conclusion

DFAS should make full use of the U.S. Treasury's differences data to assess its controls over the DoD FBWT account. The dollar amount of differences is a measure of the effectiveness of the reconciliation controls and procedures of DFAS. Disclosure of the differences and their effect on the FBWT account would assist users of the DoD Agency-Wide financial statements to assess the reliability of the DoD FBWT account value reported on the DoD Agency-Wide financial statements. DFAS should disclose the differences in conjunction with other issues affecting the FBWT account such as adjustments and in-transit disbursements. DFAS should not consider differences in isolation from other issues affecting the FBWT account.

Recommendations

1. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, "DoD Financial Management Regulation," volume 6B, "Form and Content of the Department of Defense Audited Financial Statements," October 6, 1999, to require the Defense Finance and Accounting Service to disclose the dollar amount and the age of deposit, interagency transfer, and checks issued differences and the effect of the differences on the Fund Balance With Treasury account in Note 2, "Fund Balances With Treasury," of the DoD Agency-Wide financial statements.
2. We recommend that the Office of the Under Secretary of Defense (Comptroller), and the Director, Defense Finance and Accounting Service, review the DoD Agency-Wide financial statements' footnote disclosure of differences as part of their self-evaluations. Appendix A provides details on the adequacy of management's self-evaluation.

Management Comments Required

The Under Secretary of Defense (Comptroller) and the Director, Defense Finance and Accounting Service, did not provide comments on a draft of this report. We request that the Under Secretary of Defense (Comptroller) provide comments on Recommendations 1. and 2. and the Director, Defense Finance and Accounting Service, provide comments on Recommendation 2.

Appendix A. Audit Process

Scope and Methodology

We obtained an electronic file of the U.S. Treasury's September 30, 1999, Statements of Differences and determined the effect of deposit and interagency transfer differences on the September 30, 1999, balance of the DoD FBWT account. We also obtained a copy of the U.S. Treasury's September 30, 1999, Comparison Report for DoD. The Statements of Differences and the Comparison Report reflect amounts shown on the Statement of Accountability and in U.S. Treasury control totals as of September 30, 1999, for all DoD disbursing stations with differences, including disbursing stations with zero dollar differences on September 30, 1999.

Using a spreadsheet application, we manipulated the electronic Statements of Differences file. To assure the integrity of the electronic data, we balanced control totals for the spreadsheet with control totals for the U.S. Treasury source file. In addition, we manually converted the Comparison Report to a spreadsheet application and similarly balanced control totals. We coordinated our efforts with personnel from the Department of the Treasury Financial Management Service, the General Accounting Office, and DFAS.

We determined the dollar amount of differences in deposits, interagency transfers, and checks issued that DFAS did not disclose in the footnotes to the FY 1999 DoD Agency-Wide financial statements. We determined the net value and the absolute value of the differences for deposits, interagency transfers, and checks issued. The net value represents the difference between the total amounts that were reported on the combined Statements of Accountability and total amounts reported on the combined U.S. Treasury control totals. The absolute value represents the sum of the absolute values of the differences for each individual disbursing station.⁶

In addition, we reviewed the "Treasury Financial Manual" and DoD Regulation 7000.14-R, and we interviewed operating personnel from the Department of the Treasury Financial Management Service and DFAS.

Use of Computer-Processed Data. We relied on computer-processed data from the U.S. Treasury's Standard Treasury Accounting and Reporting System to determine the September 30, 1999, differences for deposits, interagency

⁶The U.S. Treasury computes differences for each DoD disbursing station monthly. For example, if a disbursing station had 15 previous months with uncorrected differences, the disbursing station would have 15 separate differences at month end. The differences represent Statements of Accountability that either overstate or understate amounts shown in U.S. Treasury control totals. If the disbursing station in the above example had 7 months with overstatements and 8 months with understatements, the absolute value of the overstatements and understatements would be computed by considering the differences for all 15 months as positive. In computing the absolute value of the differences, overstatements would not offset understatements.

transfers, and checks issued. Specifically, we relied on computer-processed difference data from the U.S. Treasury's Statements of Differences and Comparison Report. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that data on deposits, interagency transfers, and checks issued that DoD reported to the U.S. Treasury on the Statement of Accountability agreed with corresponding computer-processed data. We did not find errors that would preclude the use of computer-processed data to meet the audit objectives or that would change the conclusions in the report.

DoD-Wide Corporate-Level Government Performance and Results Act Coverage. In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures:

FY 2001 DoD Corporate-Level Goal 2: Prepare now for an uncertain future by pursuing a focused modernization effort that maintains U.S. qualitative superiority in key warfighting capabilities. Transform the force by exploiting the Revolution in Military Affairs, and reengineer the Department to achieve a 21st century infrastructure. (01-DoD-2)

FY 2001 Subordinate Performance Goal 2.5: Improve DoD financial and information management. (01-DoD-2.5)

FY 2001 Performance Measure 2.5.1: Reduce the number of noncompliant accounting and financial systems. (01-DoD-2.5.1)

FY 2001 Performance Measure 2.5.2: Achieve unqualified opinions on financial statements. (01-DoD-2.5.2)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following financial management functional area objectives and goals.

- **Financial Management Area. Objective:** Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items. (FM-4.4) **Objective:** Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

Audit Type, Dates, and Standards. We performed this financial-related audit from September 1999 through March 2000 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations in DoD and at the Department of the Treasury, Hyattsville, Maryland. Further details are available on request.

Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the Office of the Under Secretary of Defense (Comptroller) (the Comptroller) and the DFAS controls over differences in deposits, interagency transfers, and checks issued that are reported on the Statements of Differences and the Comparison Report (the Difference Reports). Specifically, we reviewed controls over the use of the Difference Reports to identify differences for disclosure in the footnotes to the DoD Agency-Wide financial statements. We reviewed the disclosure of the dollar amount and the age of the differences in deposits, interagency transfers, and checks issued, and the disclosure of the effect of the differences on the DoD FBWT account. We reviewed the Comptroller and the DFAS self-evaluations applicable to those controls.

Adequacy of Management Controls. We identified material management control weaknesses for the Comptroller and DFAS as defined by DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996. The Comptroller and the DFAS management controls over the use of the Difference Reports to identify differences for disclosure were not adequate to ensure that differences in deposits, interagency transfers, and checks issued were disclosed in the footnotes to the DoD Agency-Wide financial statements. The recommendations, if implemented, will improve the Comptroller and the DFAS controls over the disclosure of differences. A copy of the report will be provided to the senior official responsible for management controls in the Comptroller and DFAS.

Adequacy of Management's Self-Evaluation. The Comptroller and DFAS did not identify the footnote disclosure of differences in the DoD Agency-Wide financial statements within its assessable units and, therefore, did not identify the material management control weakness identified by the audit.

Appendix B. Prior Coverage

The General Accounting Office and the Inspector General, DoD, have conducted multiple reviews related to financial statement issues. General Accounting Office reports can be accessed on the Internet at <http://www.gao.gov>. Inspector General, DoD, reports can be accessed on the Internet at <http://www.dodig.osd.mil>. DoD audit organizations have issued the following reports related to financial statement issues involving the FBWT account.

Inspector General, DoD

Report No. D-2000-044, "Reconciliation of Differences Reported for Checks Issued by the Defense Finance and Accounting Service Columbus Center Disbursing Stations," November 30, 1999.

Report No. 99-226, "Interagency Transfer Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 28, 1999.

Report No. 99-211, "Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations," July 9, 1999.

Army Audit Agency

Report No. AA 00-168, "Army's General Fund Principal Financial Statements for Fiscal Year 1999: Summary Audit Report," February 9, 2000.

Report No. AA 99-115, "Army's Principal Financial Statements for Fiscal Year 1998, Centralized Disbursing, Defense Finance and Accounting Service Indianapolis Center," January 27, 1999.

Report No. AA 98-104, "Army's Principal Financial Statements for Fiscal Years 1997 and 1996: Auditor's Report," February 13, 1998.

Naval Audit Service

Report No. N2000-0018, "Department of the Navy Principal Statements for Fiscal Year 1999," February 10, 2000.

Report No. 054-99, "Department of the Navy Principal Statements for Fiscal Year 1998: Fund Balance With Treasury," August 19, 1999.

Report No. 052-98, "Department of the Navy Principal Statements for Fiscal Years 1997 and 1996: Fund Balance With Treasury," September 30, 1998.

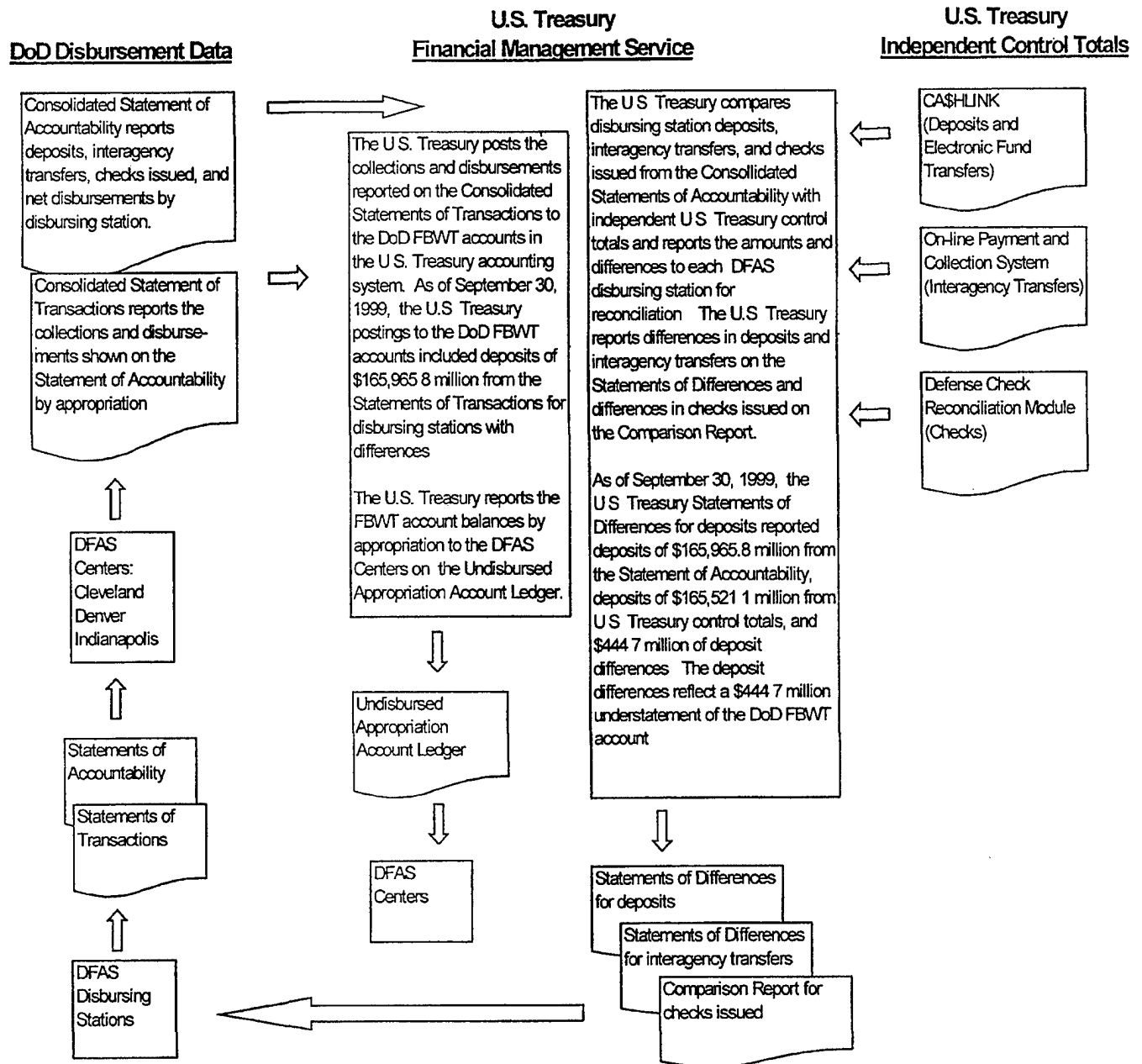
Air Force Audit Agency

Report No. 99053002, "Opinion on Fiscal Year 1999 Air Force Consolidated Financial Statements," February 9, 2000.

Report No. 98053002, "Opinion on Fiscal Year 1998 Air Force Consolidated Fund Financial Statements," March 1, 1999.

Report No. 97053009, "Opinion on Fiscal Year 1997 Air Force Consolidated Financial Statements," February 27, 1998.

Appendix C. Processes for Identifying Differences and Recording Transactions in the Fund Balance With Treasury Account



Appendix D. DoD Implementation Strategy and Reconciliation of the DoD Fund Balance With Treasury Account

Implementation Strategy. DoD has developed an implementation strategy for auditable financial statements, in coordination with the Office of Management and Budget and the General Accounting Office, the goal of which is to obtain a favorable audit opinion on the DoD Agency-Wide financial statements. On October 6, 1998, and November 19, 1998, the Principal Deputy Under Secretary of Defense (Comptroller) forwarded the implementation strategy to the DoD Components for implementation. Reconciling the FBWT account is one of several goals of the implementation strategy.

The implementation strategy for the FBWT account requires the Director, DFAS, to document the procedures used to reconcile the DoD Fund Balance With Treasury account records with those of the U.S. Treasury. The U.S. Treasury and DoD conduct reconciliations for the FBWT account.

DoD Reconciliations. Disbursing stations conduct monthly reconciliations between the Statement of Accountability and the Statement of Transactions. Disbursing stations should also reconcile deposit and interagency transfer differences reported each month on the Statements of Differences. They should reconcile differences in checks issued that are reported monthly on the Comparison Reports.

Disbursing stations also provide the information that the finance centers need to conduct two other major reconciliations each month for their disbursing stations. The reconciliations compare the Statement of Accountability with the Statement of Transactions, and the Statement of Transactions with the FBWT account reported on the Undisbursed Appropriation Account Ledger. The finance centers also reconcile the FBWT account reported on the Undisbursed Appropriation Account Ledger to the budgetary data on SF 133, "Report on Budget Execution."

Appendix E. How Differences Affect the Accuracy of the DoD Fund Balance With Treasury Account

Differences in deposits, interagency transfers, and checks issued affect the accuracy of the DoD FBWT account. Net deposit differences and interagency transfer differences directly affect the accuracy of the FBWT account in the DoD general ledger and the U.S. Treasury's Standard Treasury Accounting and Reporting System. However, checks issued differences do not always affect the accuracy of the FBWT account.

Deposit Differences and Interagency Transfer Differences. When the deposits or interagency transfers reported on a disbursing station's Statement of Accountability are different from U.S. Treasury control totals, the U.S. Treasury reports deposit and interagency transfer differences to the disbursing station for reconciliation. The U.S. Treasury control totals reflect actual funds transfers, so the existence of differences indicates that the disbursing station has not accurately reported net disbursements on the Statement of Accountability. The differences also reflect errors in net disbursements reported on the Statement of Transactions and net disbursements posted to the Department of the Treasury Financial Management Service Form 6653, the "Undisbursed Appropriation Account Ledger."

In addition, the differences reflect errors in the disbursements recorded in the disbursing station's expenditure system, errors in the disbursement data reported by the disbursing station's expenditure system to fiscal stations, and errors in the disbursements recorded by fiscal stations against the FBWT account in their accounting system.

Differences in Checks Issued. Differences in checks issued do not always reflect errors in net disbursements reported by disbursing stations on their Statements of Accountability. Some differences in checks issued reflect errors in the U.S. Treasury control totals used for checks issued (Weekly Transmission Reports sent by disbursing stations to the Defense Check Reconciliation Module) and do not affect the accuracy of the FBWT account in the DoD general ledger or the U.S. Treasury's Standard Treasury Accounting and Reporting System.

Appendix F. Report Distribution

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Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
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